07-Nov-2017

Zoetis, Inc. (ZTS)

Credit Suisse Health Care Conference

CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Erin Wilson Wright
Analyst, Credit Suisse

Good afternoon, everybody. My name is Erin Wright. I'm the healthcare technology and distribution analyst at Credit Suisse and welcome to our 26th Annual Healthcare Conference here in Scottsdale, Arizona.

With us, we're lucky to have Zoetis, the leader in animal health, and with them, we have the CFO himself, Glenn David, who will hopefully share some insights into what we're seeing kind of in the animal health world from a fundamental perspective globally across both livestock and in companion animal.

So, with that, I think, we'll move on to the broader fireside chat. After this, we can also open it up to Q&A here as well as in the breakout session, which will be after this presentation in a separate room.

So, with that, I will kick it off, if that's okay.

QUESTION AND ANSWER SECTION

Erin Wilson Wright
Analyst, Credit Suisse

Q

I guess, can you give us an update sort of where we stand, you recently reported, just from a fundamental utilization standpoint across both companion animal and livestock and whether it be herd size, cattle on feed, what are some of the core metrics you're looking at and how comfortable that you are on sort of the visibility and sort of trends across both those species groups?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Sure. So, we'll start with companion animal in terms of the trend. So, in terms of vet clinic visits, vet clinic revenue, positive trends that we're seeing in the U.S., where we have most of that data visible to us and obviously you then see that reflected in some of the performance that we've had with our companion animal business this year.

And then, from the livestock side, again a lot of the data we have visibility to is within the U.S., we're seeing good trends in terms of herd sizes, good trends this year in terms of profitability across many of the other sectors. Then, how that translates into our business varies based on different dynamics within the different species segments, but overall, very pleased with the overall performance of our business in both companion and livestock globally where we stand.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And can you speak to maybe some of the key drivers in the most recent quarter from a top line perspective, maybe point out any sort of anomalies that were in the quarter, what we should expect to be recurring in nature or maybe start to lap? For instance, where you're starting to lap now some of the SKU rationalization that's been going on for a year plus, can you talk about a little of those dynamics in the recent quarter?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Sure. Absolutely. So, when you look at the most recent quarter, our operational revenue growth was 8% and that was driven by a number of factors. So, we had really strong growth within our companion animal portfolio, growing 19% within our companion animal portfolio, really driven by tremendous performance of our dermatology portfolio. We had $124 million in sales in our dermatology portfolio in the quarter with almost 70% growth. So, that was a key driver. We also had very strong performance against a lot of other new products. Simparica being the biggest, as a really key driver of growth for the companion animal space.

When you look then to livestock business, we had about 2% growth in our livestock business, really driven by strong performance across almost all of our international markets, really strong performance in Brazil in livestock as well as Mexico and Australia, offset by some challenges that we had in the U.S. business, particularly within the U.S. cattle and the U.S. swine business. So, breaking that down a little further, in terms of the U.S. cattle business, there were a couple of challenges that we had in growth; one, related to the VFD or the Veterinary Feed Directive on a year-to-date basis, that's had about a $30 million negative impact to growth for our U.S. cattle business.

There also were some timing challenges in the quarter in terms of promotions that we ran last year in Q3 of 2016 that we did not run in Q3 of 2017. So, that had a negative impact to growth for the quarter in U.S. cattle. And then, overall, just the health of the animals, as they were entering the feedlots was very favorable. So, that meant they needed less of our products. So, there were some drags in terms of Q3 to U.S. cattle growth. We do, however, expect that growth to return as we move into Q4 as well as for 2018.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then, thinking about kind of areas that maybe you saw some more building kind of momentum, can you speak to kind of opportunities maybe in the aquaculture segment, for instance, that was brought up a lot in the most recent quarter?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. So, we had really strong performance in our aquaculture segment in Q3. We grew over 50% versus the prior quarter last year and over 100% versus the sequential quarter in Q2 and that was really driven by a number of factors. A, we had the launch of our PD vaccine in Norway. We won a court case that gave us access to that market and the team has done a tremendous job launching that product and gaining significant share in a very short period of time. That also helped us with some other vaccines in Norway that are used in conjunction with that product.

The other key driver of particularly sequential growth quarter-over-quarter for PHARMAQ was the resumption of sales for our SRS vaccine in Chile. So, our PHARMAQ team did a great job in both Chile and Norway, which are the two key salmon-producing markets and really generating great sales in the quarter and we expect that positive performance to continue as we move into Q4.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And moving down sort of the P&L, thinking about the gross margin trend, it seems that there's been a little bit less visibility kind of on that metric kind of year-to-date. How should we be thinking about the moving pieces kind of into the fourth quarter and into 2018? And how confident are you in the 200 basis points in gross margin expansion from 2018 to 2020 associated with those specific cost-structure initiatives around manufacturing?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

So, I'll start with the last question. In terms of the 200 basis point improvement, we're very confident in our ability to achieve that. We expect that to be achieved off the full year 2017 base as we move into 2020. So, very confident in the actions that we've taken, the actions that we still need to take to deliver those savings.

From an overall gross margin perspective for the year, we started off the first half. Our cost of goods as a percent of revenue is approximately 35% for the first half of the year. In Q3, we delivered 32.1% and average for the year, right, I think, about 33.7% or so and our guidance for the full year is approximately 33%. So, that does imply improvement. As we move into Q4, we do have visibility to that and we do expect to see that improvement to get us to the guidance range of approximately 33% for the year. Then, as we move into 2018, we do expect to see some of that 200 basis point improvement through 2020, reflected in 2018 versus the full-year 2017 base.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And so, do kind of the inventory headwinds, do those officially roll off or do you have now better visibility there?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

So, in terms of the inventory headwinds or you also mentioned revenue, some of the SKU rationalization impacts, those essentially were complete in the first half of the year. So, that headwind goes away from a revenue perspective. And in terms of inventory or some of the challenges or the benefits that we had this year from a cost of goods perspective versus last year, we've made a lot of progress in terms of the amount of scrap or the amount of product write-off that we had. So, that's been reflected in our full-year 2017 year-to-date results. We expect that to continue as we move into 2018.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And you've been diligent in your efforts from a cost structure initiative standpoint, I mean ever since you've kind of been involved and I guess how should we think about sort of 2018 and beyond from like an SG&A leverage standpoint? What was there to get out of the business now that you're a standalone kind of more a nimble company as opposed to being the captive animal health entity?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Absolutely. So, the company has made tremendous progress in the last number of years from an operational efficiency perspective, really getting to the EBIT margin that we had targeted back in 2015 of approximately 34%. Now, our guidance represents 34% to 34.5%. So, we're delivering that goal that we set a number of years ago very successfully.

As we move forward from an SG&A perspective, right, we want to start with the revenue line, where we expect to grow revenue at or faster than the market with the market growing in the 5% to 6% range. So, from an SG&A perspective, we expect that we'll continue to be able to grow SG&A at a pace slower than the revenue growth to continue to get some leverage within the P&L. And we wouldn't expect to see the step-change in margin improvement that we've seen over the past number of years and our focus isn't purely on margin improvement, our focus is on cash flow generation and making sure we're making the right investments to grow the business.

Erin Wilson Wright
Analyst, Credit Suisse

Q

That dovetails well into my next question, which is current capital deployment.

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Sure.

Erin Wilson Wright
Analyst, Credit Suisse

Q

I do think that's – I mean what do you think is maybe misinterpreted by folks or maybe under-appreciated by investors? And what sort of upside capital deployment activity could ultimately bring or is that not the right way to think about it in terms of whether the M&A or share buyback activity, cash flow stepped up meaningfully this year, how can you better address that?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yes. So, I think, A, in – 2017 is a year where our cash flow generation does increase significantly. We guided that – we expect our operating cash flow to mirror pretty closely to adjusted net income this year, which is, if you look at cash flow statement last year to this year, would be a meaningful increase in cash flow generation of getting pretty close to doubling cash flow in one year. And we expect our cash flow generation to continue to grow at a pace faster than adjusted net income, which means we will generate a lot of cash and that does give us flexibility then to look at investments even further that will either, A, be internal investments that continue to grow our business, but then also to your point, further opportunities for business development and then the opportunity to either repurchase shares or continue to increase our dividend moving forward.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And what sort of areas would you be potentially targeting? What sort of size, I think I've asked you this at this conference last year, what was your sort of sweet spot or what was the large versus small size in terms of acquisitions for you?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Sure. So, in terms of the areas of focus, there are a number of areas of focus that we have from a business development perspective. Genetics is an area of focus, biodevices, diagnostics, also other areas within our core portfolio, where we may have certain gaps in terms of vaccines or other areas geographically that we want to continue to invest and those are the areas that we focus.

In terms of the size, I think if you look at the PHARMAQ acquisition as an example, that was $750 million plus acquisition. I called that on the medium-to-large size for us, some of the acquisitions that we did with SMB, with Nexvet, those are probably on the smaller scale of size growth.

Erin Wilson Wright
Analyst, Credit Suisse

Q

On the Nexvet deal, when do you think that will more meaningfully contribute financially or contribute anything?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. So, that's a – obviously, we recently acquired that company. We're working through the R&D for that product – those products as well. We haven't disclosed specifically when we expect those products to launch.

Erin Wilson Wright
Analyst, Credit Suisse

Q

Okay. And do you think that though it helps to explain potential other areas in terms of a core and therapeutics or biologics arena, I mean do you think that there may be some sort of shift in practice protocols that's more open to therapies like CYTOPOINT for instance?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And how is that sort of economics model better or worse from a veterinarian's perspective?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Sure. So, we do think there is opportunity for other products. So, when you look at CYTOPOINT as a monoclonal antibody, that is definitely an area that we have a focus in from an R&D perspective, both within dermatology as well as within pain. And we've seen very strong acceptance for CYTOPOINT from our veterinary customers and we think the profitability for us as well as for our customers is positive on products like that and should be well received.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And thinking about sort of the innovation pipeline, can you remind us kind of how robust kind of the innovation pipeline is at the moment, where kind of the core areas of focus potentially are and I know you're always limited what you can kind of say there? And then, what you have disclosed is like the flea, tick and heartworm combination product, if you could give us an update if there is one?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. Like you said, we're somewhat limited in what we disclose as being the only public health animal company, but in terms of the areas of focus, there are a lot that you just referenced. So, parasiticide is definitely an area of focus with the triple combo, which Simparica is the base molecule there. Monoclonal antibody is another area of focus for us in pain as a specific category and then, vaccines continue to be an area of focus for us both – across both livestock and companion animal.

Erin Wilson Wright
Analyst, Credit Suisse

Q

Do you think in poultry vaccines, where you may be a little bit lagging relative to the competition, is that an area that you would in invest in inorganically or organically?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

So, I think it's both, right, I think there are definitely programs that we have internally that we're focused on to sort of catch up from a poultry vaccine perspective, but from a business development perspective, it's an area that we're open to evaluating as well and that we look at.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then, just broadly speaking from a geographic perspective, you're pretty broad based, but would there be any areas that you particularly want to bolster your presence and if so, kind of why are some of the key growth drivers in certain markets either potentially less tied to broader macro environments in certain areas?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Right. So, some of the key markets that we're focused on now are some of the faster-growing markets such as China and Brazil. So, on the call last week, we mentioned that we're doing some internal investments in China in both manufacturing and R&D in terms of developing and producing products in China for China. And we see the market dynamics there being very favorable for those investments as medicalization rates within companion animal continue to grow as well as industrialization on the livestock side continues to increase.

So, we want to make sure that we make the right investments upfront to be able to capitalize on those opportunities as they become available as we move forward. So, we'll continue to look at some of the faster-growing markets as areas for investment both internally as well as from a business development perspective.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then, we get a lot of questions on this, but I do have to ask kind of where do you think generics play a role in this market [ph] whether (14:59), I guess if you could comment on both the companion animal and the livestock side of the business, but also where maybe you're seeing kind of some increased competition of late and how you can offset that?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. So from a generic perspective, we've said all along that we expect generics within the animal health space to perhaps impact revenue by about 20% to 40% over time, right, and that occurs over time. It doesn't occur within a year, it occurs over many years. Peak revenue being down about 20% to 40% before the generic competition. So we haven't really seen any change in that dynamic. It's been pretty consistent. There's been some concerns that have been raised recently, but we haven't seen any movement in that 20% to 40% impact over time on any of the products that we've had to go generic in the recent years.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then can you speak to, I guess, the potential, I guess, risks or opportunities or challenges with potentially Eli Lilly's strategic review of their Elanco business. Does that change anything for you at all?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah, we're not going to comment too much on Elanco's review of their business, but all we'd say is that we're very confident in our competitive position. Having another company that may choose to go public as we said in the past, we think that could potentially be a positive for us. We're very confident with what we've been able to deliver as an organization with the margins that we have. So we think competitively speaking us compared to any other animal health company we'd definitely show very positively. And also having another company out there talking about the strong dynamics of the animal health industry would also potentially be positive.

Erin Wilson Wright
Analyst, Credit Suisse

Q

I'm curious what you're seeing, looking back to sort of new products in Apoquel? I guess what sort of – how should we think about the runway for Apoquel like in light of potential cannibalization with Cytopoint, but also in light of potential competition if you're aware of any and then also just for more acute care kind of penetration?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Okay. So I think when you look at Apoquel, you need to look at Apoquel's data point together as a dermatology portfolio. So when we look at the areas that we have for continued growth, and if you start with the international market, Cytopoint just recently launched in Europe in July, and that was a phased launch to dermatologists only. We've recently expanded that launch to all that, so Cytopoint is still very early in its launch cycle internationally. We think there is opportunity for growth there.

Also within the U.S., we think there is continued opportunity for further penetration. Apoquel and Cytopoint combined have about 59% patient share right now. We think we can continue to grow that, but we also think we can continue to grow the market with increased awareness. We've invested in DTC this year. We've seen a positive impact from the DTC. It's something that we'll definitely consider as we move forward as well to continue to increase the awareness of the disease condition and the awareness of Apoquel, and we think that'll help generate future growth as well for the product.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And if you had to estimate kind of how much or what percentage of your R&D dollars will be dedicated to kind of novel therapeutics versus kind of lifecycle enhancement?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. So from the total R&D perspective, if you look at 100% of R&D spend, about 15% of that spend is regulatory spend keeping the products on the market and registered. Then the remaining 85% is split pretty evenly between lifecycle innovation and new product innovation.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And what are some of the unique dynamics that allow the sort of lifecycle enhancement and innovation in that arena kind of that's unique to maybe animal health?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. So I think what you need to animal health is the durability of the products and the revenue streams, right? We have products that have been on the market plus 50 years, average length of products plus 25 years. So to the extent that you're able to continue to improve those products and make them more viable for our customers, the return is there because the product is still going to be there as a competitive product in the future. The other thing from a lifecycle perspective, we're pretty strict with our interpretation of lifecycle enhancement, so combination products are also considered lifecycle. And again we see a lot of benefit from combinations of certain of our products.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And switching from the therapeutics side to diagnostics, you do have a diagnostics business and you do have a pipeline there, and it seems like you were more innovative of late. I guess can you discuss some of the opportunities there where you're seeing maybe some near-term opportunities [indiscernible] (19:44)?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah, so where we see the near-term opportunities from the diagnostics portfolio is really with the acquisition of SMB and what those R&D – that R&D pipeline will deliver. So we do expect to begin investing in commercial capabilities in diagnostic, more significantly investing in those commercial capabilities in 2018, as we'll begin to launch some of the platforms that we acquired out of our SMB acquisition.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then, I guess can you speak to sort of maybe opportunities in the supply chain, just given maybe openness of distributors for other differing types of diagnostic therapeutics, if there is some sort of incremental near-term opportunity there or...?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah, I mean, I think from a diagnostics perspective, we see with the direct presence that we currently have with our field force that we'll be able to definitely leverage that as we continue to also build the capabilities internally with the diagnostics specific resources that we intend to have.

Erin Wilson Wright
Analyst, Credit Suisse

Q

Okay. And then broader consolidation across kind of the animal health space, I guess have you seen any sort of disruption from Boehringer or Merial, sales force defections, opportunities in certain categories at all throughout that integration process?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

I don't think we've seen a lot of disruption going through that from that integration process at least to our field force or to the overall industry. I think as we said when those two companies were initially combining, there wasn't a lot of overlap within species. They had different portfolios across species, so we didn't see a lot of disruption coming from them.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then sorry, I'm jumping around a little bit, but can you speak to sort of the rationale between kind of using third-party distributors and your direct sales force efforts. Where does that stand now globally speaking as well as in the U.S.? But you've opened up new products, for instance, this year parasiticides, last year vaccines to third-party distributors. Is that playing out according to how you initially anticipated and in terms of your relationships there?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Yeah. So it is playing out in terms of how we initially anticipated. And I think the key thing for us is we do believe that our field force drives the majority of demand for our products. In the U.S., we did expand some of our distribution relationships a) to make it easier for our customers to access our products in the way that they chose to, whether it's via distributor or directly from us, but also particularly in the parasiticide space, which is highly competitive, we wanted to make sure that we had the right share of voice, but also that competitors weren't necessarily counter-detailing against us so that distributors weren't counter-detailing against us as they didn't have our products in their portfolio.

Erin Wilson Wright
Analyst, Credit Suisse
Q

And your pricing and exclusive relationships, I guess, have a more meaningful kind of presence in those discussions than they maybe used to or is it still status quo in terms of contracting terms with distribution?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

I think it's still relatively status quo in terms of contracting terms with distribution. Obviously, those are negotiations that we have every year as we're renegotiating contracts, but overall, those conversations are going as they have in the past.

Erin Wilson Wright
Analyst, Credit Suisse
Q

And I'll open it up to Q&A from the field if anyone has any. If not, I can definitely keep going. In terms of, I guess, also kind of in relationship to kind of distribution in different parts of the sort of supply chain and alternative channels as well, such as like online, do you, I guess, work directly with like Amazon or other online vendors such as like a PetMed Express for instance? I'm curious how that part of the market is evolving in your perspective.

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Yeah. So from Zoetis' perspective, our focus has always been on the veterinarian. So even when other companies were moving to big box retailers with some of their products, we kept our focus on the vet, making our products available through the veterinarian. And that continues to be our focus with our products and we don't really have much of a channel outside of the vet.

Erin Wilson Wright
Analyst, Credit Suisse
Q

And even across both species groups?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.
A

Across both species groups, yeah.

Erin Wilson Wright
Analyst, Credit Suisse
Q

Okay. Yeah. And then can you speak to – going back from a capital deployment perspective, can you speak to any sort of working capital improvement near term that you anticipate? That's always been a focus for [ph] us I guess, (24:11) addressing sort of the high inventory days now that sort of SAP implementation is now complete?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. So the inventory definitely has been an area of focus for us. At the end of 2016, we had more than 11 months on hand of inventory on our balance sheet. Now that we have much better visibility with that via the implementation of the SAP system, we are starting to see some of the benefits. I mean I think if you look at our Q3 balance sheet, you'll start to see an improvement in months on hand and we expect to continue to leverage that. For a company of our size and our dynamics, we would expect that we should have inventory sort of in that seven- to nine-month range and that's something that we will target over the long term. So inventory is definitely an area of opportunity for us from a working capital perspective.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And if I take a step back and think about your growth drivers from here like in 2018 and beyond and not obviously getting into specifics there, but what are some of the biggest swing factors in your view? I mean you have a diversified kind of top line base. Is that really a major risk factor or is it more around execution on cost structure initiatives and capital deployment?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Right. So we think the diversified revenue base is definitely a benefit for us as we look out into the future and as a way to manage risk. Specifically for 2018, as we look at the growth drivers of revenue, we indicated on the call that we do expect the U.S. livestock business to return to growth in 2018, which will be a positive compared to 2017. We expect the international livestock markets to continue the momentum and the strong performance that they've had this year. We also expect continued growth from companion animal. Now obviously that growth will start to slow as we sort of re-established a new base for the dermatology portfolio with the tremendous growth that we've seen this year, but we still expect the companion animal growth to be faster than livestock growth for 2018.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And how do you weigh those from a margin or profitability standpoint? I always ask you this question kind of in terms of mix, but I mean theoretically should any higher mix towards companion animal over time be more than – your business be more levered to a higher growth, higher margin business inherently or is that not the right way to think about it?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

No, it is the right way to think about it from a pure product standpoint, so our companion animal products definitely have higher margins than our livestock products. The hierarchy essentially goes companion animal, cattle, swine, fish, and then poultry and they're all relatively close together in terms of the livestock portfolio. The other dynamic from a cost of goods perspective and margin perspective is the U.S. In general, both livestock and companion typically have higher margins than international.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then – any questions. And then speaking to kind of the dynamics across sort of that core U.S. sort of companion animal and cattle business, any sort of seasonal fluctuations. You mentioned you didn't have like a hurricane impact for instance or a meaningful consequence, it sounds like. I mean are there any sort of lingering kind of impacts from a weather perspective, from a seasonal perspective maybe [ph] fleas in cattle on feed (27:32) for instance, but as we think about that core U.S. business?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah. Nothing other than the typical seasonalization impacts that you'd see in terms of the timing of some of the purchases. You mentioned the hurricane. We have limited impact from the hurricane. We expect this year less than $5 million impact from the different hurricanes that we had throughout the U.S. and that's already been incorporated in the guidance that we provided.

Erin Wilson Wright
Analyst, Credit Suisse

Q

And then a lot of people don't focus a lot on like Apoquel, Cytopoint, Simparica, the products that you do break out. But what about, I guess, like the line vaccine or influenza vaccine for canines or the new fish vaccine, I think you have another component in terms of other new product growth. I guess can you describe how that's been trending?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah, so it's been trending very positively. So when we look at the performance that we had for Q3, for example, with the 8% growth, 4% came from the dermatology portfolio, but the other 4% came from new products. A contributor of that was Simparica. But there were already many other contributors to that 4% growth in terms of new products, like you say the companion animal vaccines, the PD vaccine in Norway, some of the PCV combination vaccines that we have internationally. So products that don't necessarily rise to the scale of an Apoquel or a Cytopoint, but when you add them all up, contribute significantly to growth.

Erin Wilson Wright
Analyst, Credit Suisse

Q

Okay, great. And with that, I think we'll – oh! no, there is one more question.

Q

Update on adding heartworm into the flea and tick product and how long of a timeframe it is to get to there?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah, so that's obviously an area that we've discussed in the past that's something that is ongoing within our R&D pipeline. We haven't disclosed the timeline for when that triple combo will be available as our competition hasn't disclosed the timeline either. That is definitely an area of focus for us from an R&D perspective [indiscernible] (29:34).

Q

Can I just ask then do you feel like you see the pathway to getting there at this point in terms of the development work you're doing?

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

So it's obviously – it's an active program within our R&D pipeline that should give you an indication of what we believe [ph] we would (29:49) keep it active, but it's an active program in our R&D pipeline.

Q

[indiscernible] (29:53)

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

A

Yeah [indiscernible] (29:55)

Erin Wilson Wright
Analyst, Credit Suisse

Awesome. Thank you so much. Appreciate it.

Glenn David
Chief Financial Officer & Executive Vice President, Zoetis, Inc.

Thank you.